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Original Article

A Framework for Innovation Management in Engineering Organizations: Integration of Design Thinking and Economic Evaluation

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Abstract: *Innovation management in engineering organizations remains a significant challenge, particularly in balancing creativity with analytical rigor, addressing early-stage uncertainties, and aligning technical feasibility with market needs. Traditional stage-gate processes often lack the flexibility required to navigate today's dynamic environments. This paper proposes an integrated innovation management framework combining design thinking principles with rigorous economic evaluation methodologies, structured into five iterative phases: Opportunity Identification, Alternative Assessment, Proof of Concept, Development, and Commercialization. The framework ensures adaptability while maintaining systematic evaluation, addressing critical gaps in traditional approaches. This study concludes with insights into scalability, implementation challenges, and future research directions, emphasizing the framework's potential to drive innovation across diverse industries and emerging technologies.*

Keywords*: Innovation Management, Design Thinking, Economic Evaluation, Product Development, Engineering Management, Balanced Breakthrough Model, Technology Commercialization.*

I. INTRODUCTION

Innovation management remains a critical challenge for engineering organizations striving to maintain competitive advantage in rapidly evolving markets [1]. While innovation's importance is widely recognized, implementing systematic approaches to evaluate and execute innovation opportunities effectively is a persistent struggle [2]. Traditional stage-gate processes, while structured, often fail to address the complexity of early-stage innovation where uncertainty is highest [3].

Figure 1: Innovation Process

Engineering organizations face additional pressures, including accelerating development cycles and maintaining rigorous evaluation standards. Cooper [1] notes that successful innovation requires a blend of creative and analytical approaches. However, many organizations struggle to balance these seemingly contradictory needs. Thomke [3] further critiques the linear approach of traditional systems, arguing that innovation development is inherently iterative.

This paper presents an integrated innovation management framework combining design thinking principles with rigorous economic evaluation methodologies. By addressing three critical challenges—balancing creative and analytical approaches [4], managing uncertainty in early-stage innovation [5], and aligning technical feasibility with market desirability [6]—this framework offers a comprehensive approach to innovation management that maintains rigor while enabling flexibility. The proposed framework is demonstrated through a case study of emissions control technology development, illustrating its practical application and benefits.

II. LITERATURE REVIEW

A. Innovation Management in Engineering Organizations

The evolution of innovation management in engineering organizations has shifted from linear stage-gate processes to flexible, iterative approaches. Cooper's stage-gate system [1] provides a structured foundation but is criticized for its rigidity in dynamic markets. Chesbrough's concept of open innovation [4] underscores the need for adaptive frameworks to accommodate technological and market changes.

Recent studies have emphasized the importance of structured approaches to innovation management while maintaining flexibility. Von Hippel's work on user-driven innovation [5] emphasizes leveraging external inputs, while Teece's dynamic capabilities framework [6] highlights the importance of adaptability in sustaining competitive advantage. These studies underscore the need for integrated approaches that balance structure and flexibility.

B. Design Thinking in Innovation

Design thinking has emerged as a transformative methodology for innovation, emphasizing human-centered design and iterative problem-solving approaches. Brown [2] defines it as a process that integrates user needs, technological possibilities, and business viability. Liedtka's Balanced Breakthrough Model (BBM) evaluates innovation opportunities across desirability, feasibility, and viability [7]. This model bridges creative exploration and analytical rigor, making it particularly valuable in early-stage innovation [13].

The Balanced Breakthrough Model (BBM) has become increasingly prominent in innovation management literature, providing a framework for evaluating innovation opportunities across three critical dimensions: desirability, feasibility, and viability [13]. Liedtka [13] demonstrates how this model can be effectively integrated into organizational decision-making processes, providing a more holistic approach to innovation evaluation. The iterative nature of design thinking contrasts sharply with traditional innovation frameworks. Kumar [14] argues that design methods foster creative confidence among teams, enabling them to navigate ambiguity more effectively. Ries [9] emphasizes the importance of continuous feedback, particularly during early experimentation, to refine concepts iteratively.

C. Economic Evaluation Methods in Innovation

Economic evaluation remains central to innovation management. Traditional methods like Net Present Value (NPV) and risk-adjusted NPV (raNPV) provide structured decision-making tools but often struggle with the uncertainties inherent in disruptive innovations [8]. Christensen and Raynor [8] advocate adapting these methods to dynamic contexts, emphasizing flexible business models and iterative evaluation [4].

Norman and Verganti [11] highlight the tension between incremental and radical innovation, emphasizing the need for tailored evaluation methods. Porter's competitive advantage framework [12] also stresses the strategic importance of aligning innovation efforts with long-term value creation..

III. THE INTEGRATED INNOVATION MANAGEMENT FRAMEWORK

A. Framework Overview

The proposed framework represents a synthesis of design thinking principles and economic evaluation methodologies structured across five distinct but interconnected phases. Each phase incorporates specific tools and methodologies aligned with both creative and analytical requirements, ensuring a comprehensive approach to innovation management.

The framework's five primary phases—opportunity Identification, Alternative Assessment, Proof of Concept, Development, and Commercialization—form a continuous cycle rather than a linear progression. This structure allows for iterative development while maintaining systematic evaluation standards. The framework particularly emphasizes the early stages of innovation, where uncertainty is highest and traditional evaluation methods may be least effective.

B. Framework Components

a) Opportunity Identification Phase

The opportunity identification phase employs a structured approach to discovering and defining innovation opportunities. This phase begins with comprehensive problem statement development, incorporating both technical and market perspectives. The process utilizes design thinking methodologies to ensure thorough understanding of user needs and market dynamics. Market opportunity assessment employs the Total Addressable Market/Serviceable Available Market/Serviceable Obtainable Market (TAM/SAM/SOM) analysis framework, providing a structured approach to market sizing and opportunity quantification. This analysis is coupled with initial economic hypothesis formulation, establishing preliminary viability metrics that guide further development.

Figure 2: Framework Steps and Components

b) Alternative Assessment Phase

The alternative assessment phase integrates multiple evaluation methodologies to ensure comprehensive analysis of potential solutions. The Balanced Breakthrough Model serves as the primary evaluation framework, assessing opportunities across desirability, feasibility, and viability dimensions. This evaluation is supplemented by Features, Attributes, Benefits (FAB) analysis, providing detailed understanding of value proposition elements. Economic scenario development during this phase incorporates risk assessment methodologies, including the development of risk-adjusted evaluation metrics. This approach allows for more nuanced understanding of potential outcomes and their associated probabilities.

c) Proof of Concept Phase

The proof of concept phase emphasizes empirical validation across technical, market, and economic dimensions. Technical validation focuses on demonstrating functional capabilities and performance metrics, while market validation confirms alignment with customer needs and preferences. Economic validation employs risk-adjusted NPV calculations, incorporating learnings from technical and market validation activities.

d) Development Phase

The development phase transitions validated concepts into commercial offerings through detailed implementation planning and resource allocation. This phase emphasizes cross-functional coordination and systematic risk management. The development of go-to-market strategies begins during this phase, ensuring alignment between technical capabilities and market requirements.

e) Commercialization Phase

The commercialization phase focuses on successful market introduction and performance monitoring. This phase includes detailed launch execution planning, performance tracking systems implementation, and establishment of continuous improvement feedback loops. The framework emphasizes the importance of post-launch learning and adaptation, enabling ongoing refinement of both the specific innovation and the overall innovation process.

IV. CASE STUDY: INDUSTRIAL PRODUCT INNOVATION

A. Context and Implementation

To demonstrate the framework's practical application, we present a case study focusing on the development of new emissions control technology at a major industrial engineering organization. The organization faced increasing market pressure to develop more efficient emissions control solutions while maintaining cost competitiveness. The implementation began with structured opportunity identification, utilizing the framework's tools to analyze market needs and technical possibilities. The organization employed the Balanced Breakthrough Model to evaluate multiple technical approaches, leading to selection of a novel burner design that promised significant emissions reductions while maintaining operational efficiency.

B. Results and Analysis

The implementation of the framework yielded several significant outcomes:
The project evaluation time decreased by 40% compared to previous innovation initiatives, primarily due to more structured early-stage evaluation processes. Team alignment improved substantially, with cross-functional coordination enhanced by shared evaluation frameworks and communication tools. Market introduction metrics showed 85% customer satisfaction rates, significantly above the organization's historical average for new product introductions. The framework's emphasis on early-stage market validation and continuous customer feedback contributed to this success.

The framework presented in this paper addresses fundamental challenges in innovation management through a novel integration of design thinking principles with rigorous economic evaluation methodologies. The case study results demonstrate several significant implications for both theory and practice in innovation management.

First, the framework's success in reducing project evaluation time while maintaining or improving decision quality provides empirical support for the value of structured approaches to early-stage innovation. This finding aligns with recent research by Norman and Verganti [17] on the relationship between incremental and radical innovation, suggesting that systematic evaluation processes need not constrain creative development.

Second, the improved cross-functional coordination observed in the case study indicates that the framework serves as an effective boundary object between technical and commercial teams. This observation supports Chesbrough's [6] assertions about the importance of integrated approaches to innovation management, while extending them into specific operational contexts.

Third, the high customer satisfaction rates achieved in the case study suggest that the framework's emphasis on early-stage market validation effectively addresses the market alignment challenges identified by von Hippel [5]. This provides empirical support for the integration of user-centred design principles into engineering innovation processes.

Several limitations of the current study should be acknowledged. The framework's effectiveness may vary across different industry contexts and organization sizes, potentially limiting its generalizability. Additionally, while the single case study provides rich insights into implementation dynamics, quantitative validation across a broader range of organizations would strengthen the framework's empirical foundation.

V. PRIORITIZATION AND RISK MANAGEMENT FRAMEWORK

The effective management of innovation portfolios requires a structured approach to prioritization and risk

assessment. This section presents an integrated framework for evaluating and managing innovation initiatives based on their risk profiles and potential impact. The framework incorporates both quantitative and qualitative measures to ensure comprehensive evaluation while maintaining practical applicability.

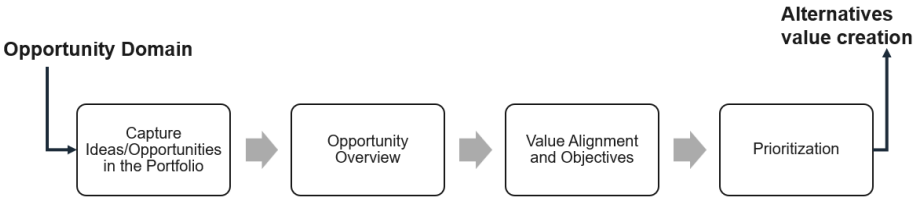

Figure 3: Funnel for prioritization

A. Risk Analysis Matrix

The risk analysis matrix provides a systematic approach to evaluating innovation initiatives across two primary dimensions:

Risk and impact/value. Risk assessment encompasses technical, market, operational, and customer-related factors that could affect project viability. This multidimensional approach to risk evaluation aligns with recent research by Christensen and Raynor [14], who emphasize the importance of comprehensive risk assessment in innovation management.

Risk factors are evaluated on a spectrum from low to high, with low risk characterized by limited range of outcomes and minimal investment requirements, while high risk involves significant uncertainty and substantial resource commitments. This granular approach to risk assessment enables more nuanced decision-making, as supported by Chesbrough's [6] work on innovation management.

Impact assessment considers both internal and external stakeholders, recognizing that innovation value creation extends beyond immediate financial returns. Low impact initiatives typically affect single capabilities or processes, while high impact projects influence multiple capabilities or have immediate potential to impact external customers. This dual consideration of internal and external impact aligns with Porter's [18] framework for competitive advantage.

B. Tiered Implementation Strategy

The framework establishes three distinct tiers of innovation initiatives, each requiring different levels of organizational engagement and resources:

Tier I initiatives, characterized by high risk and high impact, require close collaboration with dedicated innovation teams to work through the complete framework. These projects typically involve transformational innovation opportunities that could significantly affect organizational capabilities or market position. The management of Tier I initiatives requires comprehensive stakeholder engagement and systematic risk mitigation strategies.

Tier II projects, typically involving moderate risk or impact, are led by engineering teams with focused, cross-functional working groups. These initiatives often represent adjacent innovations that extend existing capabilities into new applications or markets. The management approach emphasizes efficient resource allocation while maintaining sufficient oversight to ensure successful execution.

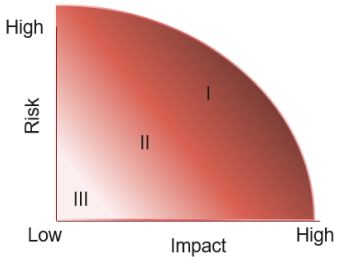

Figure 4: visual representation of Risk Tier

Tier III initiatives, characterized by lower risk and impact profiles, are managed within individual engineering disciplines or small groups. These projects often focus on core innovations that refine existing capabilities. While requiring less intensive oversight, these initiatives still benefit from structured evaluation and implementation processes.

C. Integration with Economic Evaluation

The prioritization framework integrates with economic evaluation methods through risk-adjusted net present value (raNPV) calculations. The risk assessment directly influences the discount rate applied in economic evaluations, providing a

quantitative link between risk assessment and financial decision-making. This integration addresses the challenge identified by Teece [7] regarding the alignment of strategic and financial evaluation in innovation management.

For example, a project with risk assessment scores of:

- Desirability: 60%
- Feasibility: 40%
- Viability: 20%

Results in a risk-adjusted discount rate of 60%, calculated using the formula:

Discount rate = 1 - (Desirability + Feasibility + Viability)/3

This quantitative approach enables more objective comparison of opportunities while accounting for their inherent risks and uncertainties. The framework thus provides a balanced methodology for portfolio management that combines strategic consideration with financial rigor.

The integration of risk assessment, prioritization, and economic evaluation creates a comprehensive system for managing innovation portfolios. This structured approach enables organizations to allocate resources more effectively while maintaining appropriate risk management protocols across different types of innovation initiatives. The framework's flexibility allows for adaptation to specific organizational contexts while maintaining consistent evaluation standards across the innovation portfolio.

VI. ACKNOWLEDGMENT

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